International Business News

BP boss set to resign within 24 hours

AFP, *London*

The chief executive of troubled British oil giant BP, Tony Hayward, was negotiating his terms of departure Sunday and is likely to quit within 24 hours, the BBC reported.

The British broadcaster said it had been told by a senior BP source that an announcement was due shortly on Hayward, whose future has been in doubt for several weeks over his handling of the Gulf of Mexico oil spill.

The BBC added that there was a "strong likelihood" that he would be replaced by Bob Dudley, who took over management of BP's response to the spill from Hayward last month.

Earlier, the Sunday Telegraph newspaper reported that Hayward was poised to resign before BP announces its half-year results on Tuesday. The BP board is expected to meet on Monday ahead of the announcement.

Reports have suggested for days that Hayward would resign at some point in the coming weeks as BP battles to recover its reputation in the wake of the massive oil spill.

The Sunday Telegraph said that there could be wrangling over Hayward's severance package, under which he is likely to be paid a minimum figure of just over one million pounds (1.5 million dollars, 1.2 million euros).

AFP

An Audi R8 is displayed at the 18th Indonesia International Motor Show in Jakarta yesterday. International carmakers are optimistic about Southeast Asia's biggest economy and the world's most populous Muslim majority country with a population of about 240 million.

Toyota expected to report sharp recovery in Q1

AFP, *Tokyo*

Japanese auto giant Toyota is expected to report over one billion dollars in operating profit for the April-June period, recovering from the previous year's massive loss, a business paper said Sunday.

In the quarter, the Toyota group -- including Hino Motors and Daihatsu Motor -- appears to have sold up to 1.9 million units, about 30 percent more than a year earlier, the Nikkei business daily said without citing sources.

Its operating profit is expected to reach about 100 billion yen (1.14 billion dollars), recovering sharply from the previous year's loss of 194.8 billion yen, thanks to higher sales in Asia and the Middle East, it said.

In Japan, Toyota enjoyed robust sales of the Prius while sales in North America were also recovering thanks to incentives, although its operations were still feeling the effect of recalls, it said.

In addition to the expanded sales mainly in emerging nations and resource-rich countries, the company offset the effect of the strong yen through streamlining, it said.

But Toyota was unlikely to upgrade its full-year forecasts, in part because of uncertainty over Western economies, the paper said.

US economy "gradually" improving: Geithner

AFP, *Washington*

The US economy is "gradually" improving after the financial crisis, US Treasury Secretary Timothy Geithner said in an interview on NBC News' "Meet the Press" program, to be broadcast Sunday.

"I talked to businesses across the country, and I would say that is the general view, an economy that's gradually getting better," Geithner said in excerpts of the interview released in advance of its broadcast.

Geithner also downplayed the prospects of a "double-dip" recession, in which the economy sinks again after a short period of growth.

He said that given the specific drivers of the recent recession, including the US housing bubble, "what you would expect is a more moderate paced recovery... and that's what we're seeing."

Despite the slow pace "you are seeing a recovery. You're seeing private investment expand again, job growth starting to come back. And that's very encouraging," he said.

Australian opposition promises fewer migrants

AFP, *Sydney*

Australia's opposition leader Tony Abbott Sunday vowed to slash the nation's migrant intake if elected prime minister, but said he wanted citizens to have more babies to boost the birth rate.

Abbott, who is standing against the country's first woman leader, Labor Prime Minister Julia Gillard, in August 21 polls, said he wanted to cut annual immigration to about 170,000 people -- down from some 300,000 two years ago.

"Let's have an immigration programme that people can support, that they don't think is out of control, that they don't think is subcontracted to people smugglers," Liberal Party leader Abbott told reporters in Canberra.

Abbott, who was born in Britain, acknowledged Australia was an immigrant society and said if elected prime minister he would not cut employer-nominated immigration categories designed to plug skill shortages in the economy.

But he said while he supported foreign students coming to Australia, he gave no guarantees on the number of student migrants.

COLUMN

A prudent policy for growth

MAMUN RASHID

Through monetary policy the central bank of a country controls supply, availability and cost of money so as to achieve optimum economic growth while maintaining price stability. Monetary policy is relatively flexible: immediate changes can be made in response to shocks, as opposed to fiscal policy, which takes longer time to manage and implement.

Monetary policy can be expansionary: increasing the total supply of money, as opposed to being contractionary, which decreases cumulative money supply. Expansionary policy is adopted usually when confronted with unemployment during recession by lowering interest rates. Conversely, contractionary policy is espoused to stabilise inflationary pressure through elevated interest rates. Lately, we have been hearing about "accommodative monetary policy" -- warranting a balance between growth and inflation. In such policy, we see relatively quick shifts from expansionary to contractionary measures and vice versa to fine-tune growth in an economy prone to inflationary pressures.

Advanced economies formulate monetary policies based on a wide range of factors, including short and long term interest rates, velocity of money, exchange rates, bonds and equities, government versus private sector spending/savings, international capital flows and financial derivatives. Developed nations often use advanced tools like quantitative easing, an asset-repurchase programme employed by the Bank of England to combat recession.

Conversely, emerging economies' monetary policies are often constrained by underdeveloped financial markets, low per capita income and significant poverty. The scenario is complicated additionally by existing political and economic pressure. The central banks of the emerging world have to design prudent regulations and maintain exchange rates within a specific range while managing domestic activity and inflation.

Monetary policies in Bangladesh adopt similar tools and techniques as in other emerging economies maintaining restrictions in external capital account. Monetary aggregates based policies and programmes retain relevance in economies with restricted capital accounts; policy tools influencing growth of money stock, namely monetary programme targeting broad money growth path, adjustments in cash reserve and statutory liquidity requirement (CRR, SLR) are used as appropriate, besides adjustments in key policy interest rates (repo, reverse repo interest rates in Bangladesh).

Since inception, monetary policy in Bangladesh was conducted with full direct control on interest rates and exchange rates, as also on the volumes and directions of credit flows. However, as of today, directed lending has been abolished and gradual liberalisation of interest rate has taken place. Thus, interest rates have become market driven. Exchange rate has become floating, with Bangladesh Bank (BB) buying or selling currencies to keep liquidity at a desired level, though we at times hear about "managed float" or "moral-suasion." BB has reverted over to open-market operations mainly through government treasury bills (T bills) auctions. As a result, cash reserve ratio (CRR) and statutory liquidity ratio (SLR) have become more stabilised.

STAR

Bangladesh Bank has placed a greater emphasis on the credit needs of agriculture. In its six-month monetary policy, the central bank has also prioritised efforts to deepen the financial inclusion of the farm sector.

Bangladesh's Monetary Policy Statement (MPS) for July-December 2010, released by the central bank recently, is focusing on continuous watch towards locating and neutralising the likely inflationary pressures from the growth supportive monetary and credit policies, which to the extent feasible, will be targeted to selected priority productive sectors.

Deepening of financial inclusion of agriculture, small and medium enterprises, renewable energy and ecological footprint will continue to remain as priority sectors, while at the same time, the BB continues to discourage expansion in lending for wasteful consumption and unproductive speculative investment. The discussion of the core strategies adopted by the central bank in the MPS July-December 2010 is categorised into the following facets:

Inflation outlook: Despite easing in domestic annual point-to-point CPI (consumer price index) inflation trend from March 2010, the 12-month average domestic inflation crept to 6.51 percent in April 2010, exceeding marginally the ceiling targeted for FY2010. BB thinks the average inflation will continue to creep up for some months before starting to decline in line with the trend in point-to-point CPI inflation.

Growth outlook: Output growth performance in agriculture sector was robust in FY2010. The agriculture ministry estimates FY2010 farm sector growth at 4.39 percent against last year's 4.60 percent. Industrial sector is expected to grow at 6.42 percent against last year's 6.46 percent.

The government's provisional estimate for overall FY2010 GDP (gross domestic product) growth is 6.09 percent against last year's 5.88 percent. For FY2011, BB thinks that GDP growth rate would be around 6.70 percent subject to a few conditions.

External sector outlook: BB thinks that both export and import in FY2011 are projected to grow at double-digit rates with workers' remittance inflows settling down around lower double-digit growth level. This will narrow down current account surpluses, with corresponding moderation in foreign exchange reserve growth. The need for US dollar purchases (with attendant infusion of equivalent taka liquidity) to limit taka appreciation will decrease, easing inflationary pressure.

Capacity utilisation: Domestic investment gets discouraged due to the prevailing high cost of funds. The central bank has, therefore, prescribed lending rate ceilings in priority economic sectors to accelerate growth and employment. As treasury yields and deposit rates have declined, BB has taken mandatory as opposed to advisory steps to diminish interest rates and service charges. BB programmes have placed greater directional emphasis on credit needs of agriculture and SMEs, which are underserved by the market.

However, BB is also aware of the potential diversion of this targeted lending to non-priority sectors and the possible inflationary pressure and has prepared to adopt adequate measures to stop wasteful credit growth.

Exchange rate management: The central bank has kept taka at an undervalued stable level with continuous foreign exchange purchases from the domestic market to protect export competitiveness and to maintain incentive for remittances. In the existing recessionary environment this is possibly a prudent move, as export sustainability has become an imperative issue. However, as discussed earlier with the growth of import this requirement will decrease.

Monetary policy statements in developed countries are generally short and precise, primarily focusing on the state of the economy and the stance (e.g. expansionary, contractionary) the monetary authorities might be taking to sustain growth and to keep inflation at a reasonable level. It is more of a framework or direction -- rather than detailed discussion of the policy measures. Monetary policy in an emerging economy like Bangladesh should more be able to draw a balance between inflationary pressure and investment growth, thereby creating jobs in a labour surplus economy.

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ANALYSIS

Inflation-plagued India to hike rates again

AFP, *New Delhi*

India looks set this week to hike borrowing costs for a second time in a month as it battles the highest inflation among the leading Group of 20 economic powers, analysts say.

The central bank is widely expected to increase interest rates to tackle surging prices which began in the food sector but have spilled over into other parts of India's fast-accelerating economy.

"India is facing its worst inflation problem in a decade," said Nikhilesh Bhattacharyya, economist at Moody's Economy.com, who expects 25-basis-point rises in the bank's two leading short-term interest rates.

Over the last seven months, annual food inflation in Asia's third-largest economy has swung between 13 and 20 percent, causing huge hardship, especially among the 450 million people who struggle below the poverty line.

Even India's giant entertainment industry Bollywood has got something to say about how soaring prices are hitting the poor.

A song titled "Mehangayi Daayan" ("The Inflation Witch") in a film produced by socially conscious acting star Aamir Khan goes, "my husband's earnings are good but his second wife -- inflation -- is eating them up."

Economic commentator Paranjoy Guha Thakurta told AFP: "There's a huge amount of discontent and anger across the country and certainly among the poor. Speak to the person on the street and their biggest problem is inflation."

The soaring food prices have fuelled overall inflation, which has been in double-digits for five months and now stands at 10.55 percent -- a far cry from countries such as the United States, where inflation is running at 1.1 percent.

AFP

An Indian fruit vendor waits for customers at his stall at a market of Bangalore on Saturday. India is expected to hike borrowing costs this week for a second time in a month as it battles the highest inflation in the leading Group of 20 natioins.

"India is battling inflation at a time when most of the developed economies are trying hard to ward off deflation. There's no common rule that fits all countries," noted former central bank governor Y.V. Reddy.

The bank has hiked rates three times this year but inflation is still stubbornly high -- driven by surging incomes, low farm output and a rebounding economy running up against capacity constraints as supply struggles to keep pace with demand.

The economy is forecast to expand by 8.5 percent in the fiscal year ending in March 2011, up from 7.4 percent last year. Prime Minister Manmohan Singh's Economic Advisory Council expects growth to hit nine percent next year.

Council chairman C. Rangarajan says more rate hikes are needed and insists the economy can still grow strongly with them.

For the ruling Congress party, wrestling down inflation has become an urgent priority, even though it worries that slamming on the monetary brakes too hard could derail the rebounding economy.

It has been feeling the heat over prices as the opposition Hindu nationalist Bharatiya Janata Party (BJP) has seized on the issue to galvanise its moribund fortunes, especially among the poor, traditional supporters of the left-leaning government.

The BJP organised a national general strike earlier in the month to pressure the government to roll back a contentious fuel price hike that has stoked inflation.

It has also warned it will make inflation a big issue in the next session of India's famously fractious parliament, which opens on Monday.

The central bank has to make "whatever adjustments necessary" because plus 10 percent inflation is "not acceptable", said senior government economic planner Montek Singh Ahluwalia.

The government is hoping plentiful monsoon rains this year -- after 2009's worst drought in 37 years -- will boost agriculture output and tame prices.

Prime Minister Singh forecasts inflation will start falling in coming months, to hit six percent by December.